

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF THE CANNONSBURG)	
WATER DISTRICT FOR THE APPROVAL OF)	CASE NO.
THE PROPOSED INCREASE IN RATES FOR)	2004-00159
WATER SERVICE)	

ORDER

On June 15, 2004, Cannonsburg Water District (“Cannonsburg”) submitted its application requesting the Commission to approve its proposed increase in water rates. Commission Staff, having performed a limited financial review of Cannonsburg’s operations, has prepared the attached report containing Staff’s findings and recommendations regarding the proposed rates. All parties should review the report carefully and submit any written comments on Staff’s findings and recommendations or requests for a hearing or informal conference no later than 10 days from the date of this Order.

IT IS THEREFORE ORDERED that:

1. All parties shall, no later than 15 days from the date of this Order, submit written comments, if any, regarding the attached Staff Report or requests for a hearing or informal conference.
2. Any party filing a request for a formal hearing is to include in said request its comments as to the particular finding of the Staff Report to which it objects and a brief summary of testimony it would present at a formal hearing.

3. If no request for a formal hearing or informal conference is received by this date, this case shall stand submitted to the Commission for a decision on all issues raised by the application.

Done at Frankfort, Kentucky, this 8th day of July, 2004.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and flourishes, positioned above a horizontal line.

Executive Director

STAFF REPORT
ON
CANNONSBURG WATER DISTRICT
CASE NO. 2004-00159

Pursuant to a request by Cannonsburg Water District (“Cannonsburg”) for assistance with the preparation of a rate application, Commission Staff performed a limited financial review of Cannonsburg’s test period operations, the calendar year ending December 31, 2002. The scope of Staff’s review was limited to obtaining information as to whether the test period operating revenues and expenses were representative of normal operations. Insignificant or immaterial discrepancies were not pursued and are not addressed herein.

Upon completion of its limited review, Staff assisted Cannonsburg in the development and preparation of its rate application, which Cannonsburg filed with the Commission on June 15, 2004. Staff hereby adopts the contents of Cannonsburg’s application as its recommendation in this report as if fully set out herein. Eddie Beavers of the Commission’s Division of Financial Analysis is responsible for all pro forma revenue adjustments, the billing analysis, and the cost-of-service study. Mark Frost of the same division is responsible for all pro forma expense adjustments and the revenue requirement determination.

Exhibit 3 of the application, attached hereto as Appendix A, is the adjusted pro forma operating income statement wherein adjustments were made to test period operating revenues and expenses that were known and measurable and deemed to be reasonable. The revenue requirement determination, Exhibit 7 of the application and

Appendix B of Staff's Report, shows that Cannonsburg's pro forma operations support a revenue requirement from water rates of \$1,355,624, an increase of \$270,389 or 19.95 percent above the normalized revenue from water rates of \$1,085,235. The rates proposed by Cannonsburg and developed in Exhibit 11, the cost-of-service study, will increase the average residential bill from \$25.20 to \$29.85, an increase of \$4.65 or 18.5 percent.

Upon its review of the application and the documents upon which it is based, Staff finds that the proposed revenue requirement of \$1,355,624 will allow Cannonsburg to pay its adjusted operating expenses, meet the 1.2x debt service coverage requirements of Cannonsburg's bond ordinances and provide for future equity growth. The rate schedule contained in Exhibit 1 of the application incorrectly identifies the rates for the 12-inch meter as a 6-inch meter, which Staff corrects in Appendix C. Staff finds that Cannonsburg's proposed rates, attached hereto as Appendix C, will generate the annual revenue requirement of \$1,355,624 and are reasonable. Staff recommends that the proposed rates be approved.

Signatures

Prepared by: Mark C. Frost
Financial Analyst, Water and Sewer
Revenue Requirements Branch
Division of Financial Analysis

Prepared by: Eddie Beavers
Rate Analyst, Communications, Water
and Sewer Rate Design Branch
Division of Financial Analysis

APPENDIX A
STAFF REPORT CASE NO. 2004-00159
PRO FORMA INCOME STATEMENT

	Test-Period Operations	Pro Forma Adjustments	Adj. Ref	Pro Forma Operations
Operating Revenues:				
Revenue - Water Sales	\$ 1,252,231	\$ (166,996)	(a)	\$ 1,085,235
Fire Protection	0	8,160	(a)	8,160
Other Water Revenue:				
Forfeited Discounts	0	23,369	(b)	23,369
Revenue - Water Sales	<u>\$ 1,252,231</u>	<u>\$ (135,467)</u>		<u>\$ 1,116,764</u>
Operating Expenses:				
Operation & Maintenance:				
Salaries & Wages - Emp.	\$ 303,153	\$ 28,287	(c)	\$ 331,440
Salaries & Wages - Com.	18,800	0		18,800
Emp. Pension & Benefits	18,848	92,822	(d)	111,670
Purchased Water	515,050	(78,210)	(e)	436,840
Purchased Power	34,370	141	(f)	34,511
Materials & Supplies	117,167	(65,140)	(g)	52,027
Contractual Services - Acct.	20,170	0		20,170
Contractual Services - Mgt Fees	2,000	(2,000)	(h)	0
Contractual Services - Other	22,504	(17,288)	(i)	5,216
Transportation	16,516	0		16,516
Insurance - Gen. Liability	20,843	4,208	(j)	25,051
Insurance - Workers Comp.	5,389	5,804	(j)	11,193
Insurance - Other	64,008	(64,008)	(d)	0
Advertising	652	0		652
Bad Debt	19,031	0		19,031
Miscellaneous	38,917	(522)	(k)	38,395
Total Operation & Maint.	<u>\$ 1,217,418</u>	<u>\$ (95,906)</u>		<u>\$ 1,121,512</u>
Depreciation	149,919	18,449	(l)	168,368
Amortization	0	1,173	(m)	1,173
Taxes Other Than Income:				
PSC Assessment	2,243	0		2,243
Payroll Taxes	22,633	5,859	(n)	28,492
Other Tax & License	0	0		0
Utility Operating Exp.	<u>\$ 1,392,213</u>	<u>\$ (70,425)</u>		<u>\$ 1,321,788</u>
Utility Operating Income	<u>\$ (139,982)</u>	<u>\$ (65,042)</u>		<u>\$ (205,024)</u>
Gains(Losses - Disposition of Prop.	4,876	0		4,876
Net Utility Operating Income	<u>\$ (135,106)</u>	<u>\$ (65,042)</u>		<u>\$ (200,148)</u>
Other Income & Deductions:				
Interest Income	14,270	0		14,270
Nonutility Income	20,905	0		20,905
Total Other income & Deductions	<u>\$ 35,175</u>	<u>\$ 0</u>		<u>\$ 35,175</u>
Net Income Available for Debt Service	<u>\$ (99,931)</u>	<u>\$ (65,042)</u>		<u>\$ (164,973)</u>

Adj. Ref.

Descriptions of Pro Forma Adjustments

- (a) **Revenue from Water Sales:** This adjustment reflects the results of Commission Staff's billing analysis, the current tariffed rate, the elimination of the industrial customer, and the impact of the new fire protection charge.
- (b) **Forfeited Discounts:** This adjustment corrects the misclassification of forfeited discounts.
- (c) **Salaries & Wages - Employees:** This adjustment reflects the current Staff level, the actual test-period hours worked, and the current wage rates.
- (d) **Employee Pensions & Benefits:** This adjustment reflects the impact the pro forma payroll has on the employer retirement contribution and the 2004 employee health insurance premiums.
- (e) **Purchased Water:** This adjustment reflects the test-period water purchases adjusted for elimination of the industrial customer.
- (f) **Purchased Power:** This adjustment reflects the results of Commission Staff's analysis of the test-period electric invoices.
- (g) **Materials & Supplies:** This adjustment removes a prior period purchase and capital expenditures, and corrects audit adjustments.
- (h) **Contractual Services - Legal:** This adjustment removes a capital expenditure.
- (i) **Contractual Services - Other:** This adjustment removes non-recurring labor costs and a capital expenditure.
- (j) **Insurance:** This adjustment reflects the current premiums for general liability, workers compensation, vehicle and all other insurance coverages.
- (k) **Miscellaneous:** This adjustment reflects the replacement of the pagers with cellular telephones.
- (l) **Depreciation:** This adjustment reflects the normalization of depreciation of plant placed in service during the test-period and depreciation on capital expenditures removed from expenses.
- (m) **Amortization:** This adjustment reflects amortizing the non-recurring expenditures removed from test-period expenses over their useful lives.
- (n) **Payroll Taxes:** This adjustment reflects the pro forma payroll and the current payroll tax rates.

APPENDIX B
STAFF REPORT CASE NO. 2004-00159
REVENUE REQUIREMENT DETERMINATION

3-Year Average Debt Service	\$ 83,783
Multiplied by: Debt Service Coverage	<u>1.2</u>
Income From Operations	\$ 100,540
Add: Operating Expenses	1,121,512
Depreciation	168,368
Amortization	1,173
Taxes Other Than Income	<u>30,735</u>
Total Revenue Requirement	\$ 1,422,328
Less: Other Income & Deductions	<u>35,175</u>
Revenue Requirement from Operations	\$ 1,387,153
Less: Other Operating Revenues	23,369
Fire Protection Revenue	<u>8,160</u>
Revenue Requirement from Water Sales	\$ 1,355,624
Less: Pro Forma Revenue - Water Sales	<u>1,085,235</u>
Staff's Recommended Increase	<u><u>\$ 270,389</u></u>

APPENDIX C
STAFF REPORT CASE NO. 2004-00159
STAFF'S RECOMMENDED WATER RATES

RATES AND CHARGES

5/8" x 3/4" Meter

First	2,000	gallons	\$	14.46	Minimum bill
Next	3,000	gallons		5.13	per 1,000 gallons
Next	15,000	gallons		4.75	per 1,000 gallons
Next	30,000	gallons		4.37	per 1,000 gallons
Next	50,000	gallons		4.00	per 1,000 gallons
Over	100,000	gallons		3.60	per 1,000 gallons

1 1/2" Meter

First	5,000	gallons	\$	29.85	Minimum bill
Next	15,000	gallons		4.75	per 1,000 gallons
Next	30,000	gallons		4.37	per 1,000 gallons
Next	50,000	gallons		4.00	per 1,000 gallons
Over	100,000	gallons		3.60	per 1,000 gallons

2" and 3" Meters

First	20,000	gallons	\$	101.10	Minimum bill
Next	30,000	gallons		4.37	per 1,000 gallons
Next	50,000	gallons		4.00	per 1,000 gallons
Over	100,000	gallons		3.60	per 1,000 gallons

6" Meter

First	50,000	gallons	\$	232.20	Minimum bill
Next	50,000	gallons		4.00	per 1,000 gallons
Over	100,000	gallons		3.60	per 1,000 gallons

12" Meter

First	100,000	gallons	\$	432.20	Minimum bill
Over	100,000	gallons		3.60	per 1,000 gallons